

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 8663

Petition of the Town of Stowe Electric )  
Department pursuant to 30 V.S.A. § 108(c) for )  
approval to issue up to \$3.5 million of long-term )  
bonds to finance construction of a solar electric )  
generation facility )

Order entered: 12/21/2015

**ORDER AUTHORIZING BOND ISSUANCE**

**I. BACKGROUND**

On October 9, 2015, the Town of Stowe Electric Department ("Stowe") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for authorization pursuant to 30 V.S.A. § 108(c) to issue up to \$3.5 million of long-term bonds. The bond issuance is proposed to be made under the United States Department of Treasury's Clean Renewable Energy Bonds ("CREB") program, with the proceeds used to fund the construction of a propoStowe 1.0 MW (AC) solar electric generation facility to be located in Stowe.<sup>1</sup> The Petition was supported by the prefiled testimony and exhibits of Kevin Weishaar, the controller of Stowe.

On November 12, 2015, the Vermont Department of Public Service ("Department") filed a letter with the Board recommending approval of the Petition with certain conditions.

On December 10, 2015, the Department filed a letter pursuant to 30 V.S.A. § 202(f) concluding that the Petition is consistent with the *Vermont Electric Plan*.

**II. FINDINGS**

1. Stowe is a municipal electric distribution utility subject to the Board's jurisdiction. Petition at 1.

---

1. This propoStowe solar facility is the subject of a separate proceeding in Docket 8611. In that proceeding, Stowe is seeking a certificate of public good to construct the facility pursuant to 30 V.S.A. § 248.

2. Stowe has proposed to construct and operate a 1.0 MW (AC) solar electric generation facility at 300 Beach Hill Road in Stowe to be known as the Nebraska Valley Solar Farm (the "Project"). Kevin Weishaar ("Weishaar") pf. at 3.

3. The total costs of the Project are currently estimated at about \$3.28 million. Stowe plans to issue a request for proposals to solicit bids for the construction of the Project. Weishaar pf. at 4.

4. Stowe seeks to finance the construction of the Project by issuing up to \$3.5 million of CREB bonds with principal payments amortized over a 25-year term. Stowe intends to limit the Bond issue to the amount necessary to construct the Project. The CREB program provides an interest subsidy for bonds issued to construct qualified renewable generation facilities. Under the CREB program, the United States government provides bondholders with federal tax credits in lieu of a portion of the stated interest due on the bonds, resulting in a lower effective interest rate for the issuer. As a result of the subsidy, the effective rate on the CREB bonds (which are not tax-exempt) is less than the rate for tax-exempt bonds that Stowe normally uses to fund capital acquisitions. Weishaar pf. at 5.<sup>2</sup>

5. The CREB subsidy is calculated as 70% of the Qualified Tax Credit Bond ("QTCB") rate for the maximum term on the day the bonds are issued. Based on the QTCB rate on September 22, 2015, which was 4.81% for a 25-year maturity, the CREB subsidy would be 3.367%. Weishaar pf. at 5.

6. Stowe submitted an application for an allocation under the CREB volume cap in late May 2015 and received approval for its requested allocation on August 6, 2015. Weishaar pf. at 5; exh. KW-1.

7. Stowe contacted eight lending institutions to request financing proposals and continues to work with four banks to refine their proposals. As of the date of the Petition, Stowe had not been able to negotiate a reasonable 25-year fixed rate, but had been offered proposals for a variable rate structure for a portion of the loan term from five to 20 years. Based on the proposals received from the four banks, the average QTCB rates in September, and certain long-

---

2. See, also, <http://energy.gov/savings/clean-renewable-energy-bonds-crebs>

term rate assumptions, Stowe estimates that the effective interest rate on the bonds, after taking account of the CREB subsidy, would be 1.2% for the first 15 years (based on a fixed rate of 4.56%) and 3.5% for the last ten years of the bond term. Total payments on the bonds over the 25-year term are projected to be approximately \$5.40 million. As a result of the CREB subsidy, the cost to Stowe of such bond payments would be reduced to approximately \$3.96 million. Weishaar pf. at 8.

### **III. DISCUSSION & CONCLUSION**

Stowe proposes to issue bonds utilizing the CREB program in an amount not to exceed \$3.5 million, which would be repaid over a 25-year term. The bonds would be used by Stowe to finance the total cost of the Project. Stowe notes that the Project will require a significant investment by Stowe. It contends that using long-term debt to finance the Project will promote intergenerational equity among ratepayers and will help ensure that ratepayers who benefit from the Project pay for the Project over its useful life.<sup>3</sup>

Stowe proposes to issue the bonds utilizing the subsidies provided by the CREB program. The actual terms of the financing will be determined following the selection of a lender and the negotiation of final terms. However, Stowe does not expect the final terms to exceed the rates used by Stowe in Stowe's analysis as set forth in finding 7 above.<sup>4</sup> With respect to the issuance of taxable bonds under the CREB program, Stowe believes that the effective interest rates resulting from the CREB program subsidy "are so favorable that other funding sources are simply not competitive."<sup>5</sup> Stowe notes that the interest rate for a tax-exempt, 25-year bond from the Vermont Municipal Bond Bank would be 3.3%. The Board notes that the CREB allocation letter provided to Stowe by the Department of Treasury requires that the bonds be issued by February 2, 2016.<sup>6</sup>

This financing is dependent on the issuance of a certificate of public good ("CPG") for the Project under 30 V.S.A. § 248, which is the subject of a separate proceeding in Docket 8311. The financing is also subject to voter approval pursuant to 30 V.S.A. § 108(c)(3).

---

3. The useful life of the Project is expected to be at least 30 years. Weishaar pf. at 6.

4. Weishaar pf. at 8.

5. *Id.*

6. Petition at 3; Weishaar pf. at 5; exh. KW-1.

The Department believes that the proposed Stowe financing will be consistent with the general good of the state and recommends approval of the Petition with certain conditions and without hearings. It observes that Stowe "has taken steps to partially address its renewable energy requirements, fill capacity gaps, and reduce capacity and transmission expenses" through the proposed investment in the Project.<sup>7</sup> Based on indicative interest rates and pro forma budget estimates, the Department states that "Stowe appears to have secured least-cost financing for the Project" through the solicitation and award of CREB financing, while also noting that Stowe "has not yet secured lender financing."<sup>8</sup> Based on pro forma financial statements, Stowe will have a debt service coverage ratio of 2.25 in 2016, which indicates a sufficient cash flow to service this new debt as well as existing debt.<sup>9</sup>

The Department proposes that the following conditions be imposed in any Board order approving the Petition: (1) such approval shall be contingent on Stowe receiving a CPG for the Project; (2) upon the selection of a lender, Stowe shall submit the lender's commitment letter to the Board, specifying the terms and conditions applicable to the bonds, including covenants; (3) should the cost of the completed Project be less than the principal amount of the bonds, Stowe shall notify the Board and the Department as to the disposition of the excess funds; and (4) Stowe shall notify the Board and Department of voter approval of the financing. The Board believes that the conditions proposed by the Department are appropriate under the circumstances of this financing.

Under 30 V.S.A. § 108(c)(1), Stowe may not issue the bonds unless the Board first finds that the "proposed action will be consistent with the general good of the state." Based on a review of the Petition, the supporting testimony, accompanying exhibits, and other filings, the Board concludes, subject to the conditions set forth below, that the bond issuance as described above will be consistent with the general good of the state.

---

7. Letter to the Clerk of the Board from Megan R. Ludwig, Special Counsel, filed on November 12, 2015, at 2.

8. *Id.*

9. *Id.*

**IV. ORDER**

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED by the Public Service Board ("Board") of the State of Vermont that:

1. Subject to the conditions set forth in this Order, the issuance by the Town of Stowe Electric Department ("Stowe") of bonds, as described in the findings and as proposed and set forth in Stowe's petition (the "Bonds"), will be consistent with the general good of the State of Vermont.
2. The issue and sale of the Bonds by Stowe shall be contingent upon the receipt by Stowe of a certificate of public good in Docket 8311 to construct the proposed 1.0 MW (AC) solar electric generation facility at 300 Beach Hill Road in Stowe.
3. Within 10 days after the execution of a commitment letter related to the Bonds (or if a commitment letter has already been executed, within 10 days after the date of this Order), Stowe shall file with the Board and the Vermont Department of Public Service ("Department") a copy of such commitment letter specifying the terms and conditions applicable to the Bonds, including covenants, to the extent set forth in such commitment letter.
4. Within 10 days after the vote required by 30 V.S.A. § 108(c)(3), Stowe shall notify the Board and the Department about the outcome of such vote.
5. If the total cost of the Project upon completion is less than the principal amount of the Bonds, Stowe shall notify the Board and the Department as to the disposition of the excess funds from the issue and sale of the Bonds.
6. This Order does not constitute approval of Stowe's capital structure or of any particular capital or operating expenditure that Stowe may make with the proceeds of the Bonds as contemplated in the petition. Nothing in this Order shall preclude the Department or any other party, or the Board, from reviewing or challenging such expenditures or Stowe's resulting capital structure.

Dated at Montpelier, Vermont, this 21<sup>st</sup> day of December, 2015.

|                          |   |                |
|--------------------------|---|----------------|
| <u>s/James Volz</u>      | ) |                |
|                          | ) | PUBLIC SERVICE |
|                          | ) |                |
| <u>s/Margaret Cheney</u> | ) | BOARD          |
|                          | ) |                |
|                          | ) | OF VERMONT     |
|                          | ) |                |

OFFICE OF THE CLERK

FILED: December 21, 2015

ATTEST: s/Susan M. Hudson  
Clerk of the Board

*Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@vermont.gov)*

*Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and Order.*